

"The mission of the Louisiana Department of Revenue is to administer applicable laws and collect revenues to fund state services."

Cynthia Bridges
Secretary

Revenue Information Bulletin (No. 07-005)

Individual Income Tax

January 25, 2007¹

Claiming the Credit for the Louisiana Citizens Property Insurance Corporation Assessments

The Taxpayer Services Division announces the following:

Purpose

The purpose of this Revenue Information Bulletin is to inform individuals about the new income tax credit for the Louisiana Citizens Property Insurance Corporation regular assessments, emergency assessments, insurance companies' regular assessment recoupment surcharge and market equalization charges that were a result of Hurricanes Katrina and Rita (collectively, LA Citizens assessments). This RIB will also describe what documents individuals will need to determine the amount of the refund, what form individuals should use to claim the credit, and what documents must be attached to the income tax return.

Introduction

In December 2006, the Louisiana Legislature authorized a refundable income tax credit for the LA Citizens assessments that resulted from Hurricanes Katrina and Rita. This

credit is available to people who paid the LA Citizens assessments in addition to their homeowner's or property insurance premium.

The LA Citizens assessments are a result of losses on insured property caused by Hurricanes Katrina and Rita. In years when there are no large catastrophic losses, LA Citizens collects enough premiums to cover their cost of operations. However, the massive losses of Hurricanes Katrina and Rita cost LA Citizens over \$1.2 Billion, which created a deficit. LA Citizens assessments on assessable property insurance policies in Louisiana were used to partially fund this deficit left by Hurricanes Katrina and Rita.

How to Determine the Amount of the Credit

Premium notices received before January 1, 2007 may include the LA Citizens assessments due to Hurricanes Katrina and Rita. The LA Citizens assessments are shown as separate line item(s) in addition to your normal premium amount on what is referred to as the "declaration page" of your homeowner's or property insurance premium notice.

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This issue of the Louisiana Tax Topics contains summaries of selected major tax laws amended or enacted during the 2006 Regular Session of the Louisiana Legislature. The summary information presented is only intended to provide a general description of the law's major provisions and should not be construed to represent a complete analysis or specific interpretation of the law.

A complete listing of the legislation enacted in 2006 may be obtained from the Department's web page on the Internet at www.revenue.louisiana.gov, or by contacting the Policy Services Division at: P.O. Box 44098, Baton Rouge, LA 70804-4098, Fax (225) 219-2776.

Copies of particular acts may be obtained from the Office of the Secretary of State at (225) 342-2085.

The declaration page names the policyholder, describes the property or liability to be insured, the type of coverage, and policy limits. Due to limited space on the declaration page, some insurance companies may include a supplemental schedule that itemizes the LA Citizens assessments.

LA Citizens assessments line item charges may include any or all of the following (your insurer's description may vary slightly from the references below):

- Louisiana Citizens FAIR Plan Regular Assessment Recoupment Surcharge
- Louisiana Citizens Coastal Plan Regular Assessment Recoupment Surcharge
- Louisiana Citizens FAIR Plan Emergency Assessment
- Louisiana Citizens Market Equalization Charge

To determine the amount of the credit that you can claim, add the charges for these line items together. If only one of the line items appears on your insurance bill, then that is the amount of your credit.

You must have actually paid these amounts to claim the credit. It does not matter if you directly paid your insurance company or if the payment was made for you by an escrow company.

This is NOT a credit for the total amount due on your insurance bill. Do NOT add your insurance premium to the LA Citizens assessments. Only claim the amount of the LA Citizens assessments.

When the Credit Can Be Claimed

The credit is claimed for the year paid regardless of the due date of your premium. Citizens assessments paid before January 1, 2007 can be claimed on the first income tax return with an original or extended return due date in 2007. Only LA Citizens assessments actually paid in 2005 or 2006 will be allowed as a credit on a 2006 income tax return. If you paid multiple LA Citizens assessments, for example, one in December 2005 and another in December 2006, you are entitled to claim a credit for both payments on your 2006 income tax return.

LA Citizens assessments paid in 2007 are eligible to be claimed on the 2007 income tax return which is due in 2008.

Required Documentation for Everyone Claiming the Credit

A copy of your homeowner's or property insurance declaration page that shows the separate line item charges for the LA Citizens assessments must be attached to all paper income tax returns. If the insurance declaration page had a supplemental page itemizing the LA Citizens assessments, attach both a copy of the declaration page and the supplemental page to your income tax return. A substitute document issued by your insurance company that contains the line item LA Citizens assessments will also be accepted if you did not keep your original declaration page.

If you file electronically or through LDR e-file, your homeowner's insurance declaration page that shows the separate line item charges for the LA Citizens assessments should be

retained for 4 years in case of audit. If the insurance declaration page had a supplemental page itemizing the LA Citizens assessments, retain both the declaration page and the supplemental page for 4 years in case of audit.

If you have your return prepared by a paid preparer, such as a national tax service firm or individual tax practitioner, you must bring a copy of the homeowner's insurance declaration page that shows the separate line item charges for the LA Citizens assessments to your preparer. Preparers are not authorized to claim this credit on your behalf without this declaration page. If you are filing electronically, your preparer must keep a copy of this declaration page on file. If the insurance declaration page had a supplemental page itemizing the LA Citizens assessments, bring both the declaration page and the supplemental page to your tax preparer.

All individuals should keep any documents showing proof of payment for 4 years in case of audit. Documents that will be accepted as proof of payment include, but are not limited to, cancelled checks, an image of a check, or an itemized escrow statement.

If your policy renewal date is in 2007 and you paid the LA Citizens assessments before January 1, 2007, you may be required to provide proof that you actually paid the assessments in 2006 to be eligible to claim the credit on your 2006 tax return.

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What Form to Use to Claim the Credit

The form that you will use to claim the credit will depend on whether you are required to file a 2006 Louisiana income tax return and whether you are a resident or non-resident who paid the LA Citizens assessments.

If you had more than one property for which you paid the LA Citizens assessments before January 1, 2007, such as a home and a camp, you must also prepare Form R-INS Supplement. If you file the R-540INS or if you file a paper IT 540 or IT 540B, you must attach the required documentation for each property listed when you file. All individuals who claim this credit should retain the required documentation for each property listed for 4 years in case of audit.

Individuals entitled to a credit because they are a sole proprietor or have rights to the credit from a partnership or other pass-through entity, should review RIB 07-006 for additional information.

Individuals Who Are Not Required to File a 2006 Louisiana Income Tax Return

If you are not required to file a personal income tax return, you will file your claim for refund on the special form provided by the Department of Revenue. This form is called the "Request for Refund of Louisiana Citizens Property Insurance Corporation (LA Citizens) Assessment." It is form number R-540INS, which is available in the Department's statewide offices and on the Department's website at www.revenue.louisiana.gov.

A copy of your homeowner's or property insurance declaration page that shows the separate line item charges for

the LA Citizens assessments must be attached to the R-540INS. If the insurance declaration page had a supplemental page itemizing the LA Citizens assessments, attach both a copy of the declaration page and the supplemental page to the R-540INS.

Individuals Who Must File a 2006 Louisiana Income Tax Return

Louisiana residents who file a Louisiana personal income tax return and are entitled to claim this credit will not use a special form. Residents will use the standard Louisiana Resident income tax return, the IT 540, and will list the credit on Schedule F, Line 9. This line is entitled "Other Credits." Write "LA Citizens Assessments" in the space provided.

If you file a paper income tax return, a copy of your homeowner's insurance declaration page that shows the separate line item charges for the LA Citizens assessments must be attached to the return. If the insurance declaration page had a supplemental page itemizing the LA Citizens assessments, attach both a copy of the declaration page and the supplemental page to your income tax return.

If you file electronically, keep your homeowner's insurance declaration page that shows the separate line item charges for the LA Citizens assessments for 4 years. If the insurance declaration page had a supplemental page itemizing the LA Citizens assessments, keep both the declaration page and the supplemental page to your income tax return.

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Tax Seminars/Workshops

The following Regional Offices of the Louisiana Department of Revenue will be hosting Beginner's Workshops covering general basic sales tax topics.

Baton Rouge Regional Office

When: (10:00 am) . April 13, 2007

Where: 1st Floor Auditorium . 8549 United Plaza Blvd.
Baton Rouge, LA

Info: Contact Kent LaPlace at: (225) 922-2300

EITC (Earned Income Tax Credit) Awareness Day

Free Income Tax Filing & Assistance!

When: Saturday, February 3, 2007 • 8:00 am – 2:00 pm

Where: Dryades YMCA
2220 Oretha Castle Haley
New Orleans, LA 70113

NO APPOINTMENTS NECESSARY

For more information: Call (504) 299-4310

Nonresident Louisiana taxpayers who file the 2006 Louisiana nonresident personal income tax return and are entitled to claim this credit will not use a special form. Nonresidents will use the standard Louisiana Nonresident and Part-year Resident income tax return, the IT 540B, and will list the credit on Schedule F, Line 9. This line is entitled "Other Credits." Write "LA Citizens Assessments" in the space provided.

If you file a paper income tax return, a copy of your homeowner's insurance declaration page or substitute document that shows the separate line item charges for the LA Citizens assessments must be attached to the return. If the insurance declaration page had a supplemental page itemizing the LA Citizens assessments, attach both a copy of the declaration page and the supplemental page to your income tax return.

If you file electronically, keep your homeowner's insurance declaration page or substitute document that shows the separate line item charges for the LA Citizens assessments for 4 years. If the insurance declaration page had a supplemental page itemizing the LA Citizens assessments, keep both the declaration page and the supplemental page to your income tax return.

¹ **Revision History:** This Revenue Information Bulletin was initially issued on December 27, 2006. Additional information regarding the emergency assessments, market equalization charge, and how to claim LA Citizens assessments paid before January 1, 2007 was added on January 25, 2007.

Revenue Information Bulletin (No. 07-006)

Corporate Income Tax and Individual Income Tax January 25, 2007¹

Businesses and Exempt Organizations Claiming the Credit for the Louisiana Citizens Property Insurance Corporation Assessments Paid

The Taxpayer Services Division announces the following:

Purpose

The purpose of this Revenue Information Bulletin is to inform business taxpayers and exempt organizations about the new income tax credit allowed for the Louisiana Citizens Property Insurance Corporation (LA Citizens) regular assessments, emergency assessments, insurance companies' regular assessment recoupment surcharge and market equalization charges that were a result of Hurricanes Katrina and Rita (collectively, LA Citizens assessments). This RIB will also describe what documents are needed to determine the amount of the refund, what documents must be attached to the income tax return, and what forms should be used to claim the credit.

Introduction

In December 2006, the Louisiana Legislature authorized a refundable income tax credit for the LA Citizens assessments that resulted from Hurricanes Katrina and Rita. This

credit is available to businesses including for-profit and not-for-profit corporations that paid the LA Citizens assessments in addition to their property insurance premium.

The LA Citizens assessments are a result of losses on insured property caused by Hurricanes Katrina and Rita. In years when there are no large catastrophic losses, LA Citizens collects enough premiums to cover their cost of operations. However, the massive losses of Hurricanes Katrina and Rita cost LA Citizens over \$1.2 Billion, which created a deficit. LA Citizens assessments on assessable property insurance policies in Louisiana were used to partially fund this deficit left by Hurricanes Katrina and Rita.

How to Determine the Amount of the Credit

Premium notices received before January 1, 2007 may include the LA Citizens assessments due to Hurricanes Katrina and Rita. The LA Citizens assessments are shown as separate line item(s) in addition to the normal premium amount on the "Declaration Page" of the property insurance premium notice. The Declaration Page names the policyholder, describes the property or liability to be insured, the type of coverage, and policy limits. Due to limited space on the Declaration Page, some insurance companies may include a supplemental schedule that itemizes the LA Citizens assessments.

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Louisiana Citizens assessment line item charges may include any or all of the following (your insurer's description may vary slightly from the references below):

- Louisiana Citizens FAIR Plan Regular Assessment Recoupment Surcharge
- Louisiana Citizens Coastal Plan Regular Assessment Recoupment Surcharge
- Louisiana Citizens FAIR Plan Emergency Assessment
- Louisiana Citizens Market Equalization Charge

To determine the amount of the credit that the business can claim, add the charges for these line items together. If only one of the line items appears on your insurance bill, then the amount on that line is the amount of the credit.

This is not a credit for the total amount due on your insurance bill. Do not add the insurance premium to the LA Citizens assessments. Only claim the amount of the LA Citizens assessments.

You must have actually paid these amounts to claim the credit. It does not matter if you directly paid the insurance company or if the payment was made on your behalf through an escrow company.

When the Credit Can Be Claimed

The credit is claimed for the year paid regardless of the due date of your premium. Citizens assessments paid before January 1, 2007 can be claimed on the first income tax return with an original or extended return due date in 2007. Only LA Citizens assessments actually paid in 2005 or 2006 will be allowed as a credit on a 2006 income tax return. If you paid multiple LA Citizens assessments, for example, one in December 2005 and another in December 2006, you are entitled to claim a credit for both payments on your 2006 income tax return.

LA Citizens assessments paid in 2007 can only be claimed on the first income tax return due in 2008.

Required Documentation for All Businesses and Corporations Claiming the Credit

A copy of the property insurance Declaration Page that shows the separate line item charges for the LA Citizens assessments and proof of payment for each insured property must be attached to all paper income tax returns. If the insurance Declaration Page had a supplemental page itemizing the LA Citizens assessments, attach both a copy of the Declaration Page and the supplemental page to your income tax return. A substitute document issued by your insurance company that contains the line item LA Citizens assessments will also be accepted if you did not keep your original declaration page.

Documents that will be accepted as proof that you actually paid the LA Citizens assessments include, but are not limited to, cancelled checks, an image of a check, or an itemized escrow statement.

If you file electronically, retain the Declaration Page that shows the separate line item charges for the LA Citizens assessments and proof of payment for 4 years in case of audit. If the insurance Declaration Page had a supplemental page itemizing the LA Citizens assessments, retain both the Declaration Page and the supplemental page for 4 years in case of audit.

If you have your return prepared by a paid preparer, such as a national tax service firm or individual tax practitioner, you must bring a copy of the property insurance Declaration Page that shows the separate line item charges for the LA Citizens assessments and proof of payment to the preparer. Preparers are not authorized to claim this credit on your behalf without this Declaration Page. If you are filing electronically, your preparer must keep a copy of this Declaration Page on file. If the insurance Declaration Page had a supplemental page itemizing the LA Citizens assessments, bring both a copy of the Declaration Page and the supplemental page to your tax preparer.

What Form to Use to Claim the Credit

The form that you will use to claim the credit will depend on whether the business is required to file a Louisiana income tax return.

If you had more than one property for which you paid the LA Citizens assessments before January 1, 2007 you must also prepare Form R-INS Supplement. You must attach the required documentation, including proof of payment, for each property listed when you file. If you claim this credit you should retain the required documentation for each property listed for 4 years in case of audit.

Corporations That Are Not Required to File a 2006 Louisiana Income Tax Return – Exempt Organizations

Exempt organizations and corporations such as churches, not-for profit hospitals, charities, 501(c)(3) organizations, community foundations, banks that pay the local shares tax and all other corporations exempt from the Louisiana corporate income tax under R.S. 47:287.501 that paid the LA Citizens assessments will be eligible for the LA Citizens credit.

If the exempt organization is not required to file an income tax return, it should file a claim for refund on the special form provided by the Department of Revenue. This form is called the "Request for Refund of Louisiana Citizens Property Insurance Corporation (LA Citizens) Assessment," Form R-620INS, which is available at the Department's statewide offices and on the Department's website at www.revenue.louisiana.gov.

Corporations That Must File a 2006 Louisiana Income Tax Return

Corporations that must file a Louisiana corporate income tax return and are entitled to claim this credit will use the standard Louisiana Corporation Income and Franchise Tax, the CIFT-620, and will claim the credit on Line 9 of Schedule RC. This line is entitled "Other Credits." Write "LA Citizens Assessments" in the space provided.

Corporations That File on a Fiscal Year Basis

Fiscal year filers that are filing a 2005 Louisiana Corporation Income and Franchise Tax return with an original or extended due date that is on or after January 1, 2007 will claim the credit on the 2005 CIFT-620, and will claim the credit on Line 8 of Schedule RC. This line is entitled "Other Refundable Credit." Write "LA Citizens Assessments" in the space provided.

Sole Proprietors

If the business that paid the LA Citizens assessments is a sole proprietorship that files a Louisiana Resident income tax return, the IT 540, the credit should be claimed on

Schedule F, Line 9. This line is entitled "Other Credits." Write "LA Citizens Assessments" in the space provided.

If the business that paid the LA Citizens assessments is a sole proprietorship that files a Louisiana Nonresident and Part-year Resident income tax return, the IT 540B, the credit should be claimed on Schedule F, Line 9. This line is entitled "Other Credits." Write "LA Citizens Assessments" in the space provided.

S Corporations

If the business that paid the LA Citizens assessments operated as an S corporation during 2006, the LA Citizen's credit must be used at the corporation level unless the S corporation makes the annual flow through election provided for in R.S. 47:1675(G)(2)(b).

An S corporation that is entitled to the LA Citizens credit may elect to flow through the entire amount of the credit to its shareholders. The election may be made separately for each credit received by the S corporation and is made annually. There is no special form required to make the election. The election is made when the S corporation does not claim the credit on the CIFT-620, but instead allows each shareholder to claim that shareholder's share of the credit on their own income tax return. Once made, the election may not be revoked for that tax year.

The S Corporation that elects to flow through any credits, including the LA Citizens credit, must prepare and distribute to each shareholder a schedule detailing the shareholder's share of each credit for which the election is made. Shareholders claiming the credit should attach a copy of this schedule to the income tax return on which the credit is claimed. A corporate shareholder will claim the credit as set forth in this RIB. An individual shareholder will claim the credit as set forth in Revenue Information Bulletin (RIB) 07-005.

Business Entities Not Subject to Louisiana Income Tax – Flow Through of the Credit

If the business that paid the LA Citizens assessments is an entity not subject to Louisiana income tax, such as a partnership, the LA Citizens credit will flow through to partners or members of the entity as provided in the operating agreement. In the absence of an operating agreement or if the operating agreement is silent with respect to the allocation of tax items, the LA Citizens credit will flow through to each

partner or member in accordance to the partner or member's ownership interest in the entity. A corporate partner will claim the credit as set forth in this RIB. An individual partner or member will claim the credit as set forth in RIB 07-005.

If the business entity has a different tax-year end than the partner or member, the partner or member will claim the LA Citizens credit in the same tax year in which the partner or member is required to report any income or loss from the entity.

Businesses not subject to Louisiana income tax must prepare and distribute to each partner or member a schedule detailing the partner or member's share of each credit earned including any LA Citizens assessment credit. Partners or members claiming the credit should attach a copy of this schedule to the income tax return on which the credit is claimed.

Insurance Companies

Insurers that paid the 2005 regular assessment levied by the Louisiana Citizens Property Insurance Corporation before January 1, 2007 and did not pass on the entire assessment to their policyholders are eligible to receive a credit for the amount of the regular assessment that they did not recoup.

Insurers that paid the 2005 regular assessment and levied a recoupment surcharge on their policyholders to recoup the LA Citizens regular assessment are not entitled to receive a credit for the amount of the assessment they recouped.

Eligible insurers that are not subject to Louisiana income tax should claim the credit on Form R-620INS. To claim credit for the LA Citizens regular assessment, in its entirety or for that portion not recouped, the insurer must provide a copy of the LA Citizens regular assessment payment notice and proof of payment. In addition, the insurer must provide a certified statement and audited summary of the full and final amount recouped from the insurer's policyholders. A copy of the certified statement, proof of payment, and audited summary must also be filed with the Louisiana Department of Insurance, Office of Property and Casualty.

Tax Topics is a quarterly publication of the Louisiana Department of Revenue. Information contained herein is of a general nature; taxpayers requiring information concerning a specific tax matter should contact the appropriate tax office. Subscription information may be obtained from the Communications Section at the address below, or by calling (225) 219-2760.

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¹ **Revision History:** This Revenue Information Bulletin was initially issued on January 17, 2007. Additional information regarding the emergency assessments, market equalization charge and how to claim LA Citizens assessments paid before January 1, 2007 was added on January 25, 2007.

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